

12. INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)



VITAL FACTOR CONSULTING

Creating Winning Business Solutions

Vital Factor Consulting Sdn. Bhd.

(Company No: 266797-T)

75C & 77C Jalan SS22/19

Damansara Jaya

47400 Petaling Jaya

Selangor Darul Ehsan, Malaysia

Tel: (603) 7728 0248

Fax: (603) 7728 7248

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The Board of Directors
Pin Wee Group Berhad
Plot 31 Lorong Perindustrian Bukit Minyak 9
Taman Perindustrian Bukit Minyak
14100 Bukit Mertajam
Penang

Dear Sirs/Madam

Assessment of the Poultry Feedmill and Broiler Farming Industries

The following is an extract of the Assessment of the Poultry Feedmill and Broiler Farming Industries prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Pin Wee Group Berhad to be dated 23 April 2002 in relation to its listing on the Second Board of the Kuala Lumpur Stock Exchange.

1. BACKGROUND

- The objective of this report is to provide an independent assessment of the Poultry Feedmill and Broiler Farming Industries in Malaysia.
- This Industry Assessment forms part of the submission to the Securities Commission for the listing of **Pin-Wee Group Berhad** (Pin-Wee) on the Second Board of the Kuala Lumpur Stock Exchange.
- In certain instances whereby there is limited information on the Poultry Feedmill industry, the report will use Animal Feed to act as a proxy for Poultry Feed. This is because Poultry Feed represents a high proportion of total Animal Feed produced.

2. INDUSTRY IN WHICH PIN-WEE GROUP BERHAD OPERATES

- Pin-Wee Group Berhad, through its fully owned subsidiaries operate within the following two industries:
 - Pin-Wee Feedmills is in the production of Poultry Feed;
 - Pin-Wee Farming is in broiler farming (rearing of chicken for its meat).

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3. INDUSTRY GROWTH

	Average Annual Growth Rate Production	Average Annual Growth Rate Exports
Production of Poultry Feed	11.2% (1996 – 2000)	-
Sales Value of the Manufacturing of Prepared Animal Feed	5.5% (1996 – 2000)	-3.4% (1996 – 2000)
Sales Value of Output of Poultry Meat (Peninsular Malaysia)	21.9% (1996 – 2000e)	8.9% (1995 – 1999)

e =2000 figures are estimates only.

Sources: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture; Unpublished Data - Department of Statistics; Monthly Manufacturing Statistics, September 2001, Department of Statistics; Monthly External Trade Statistics December 1997, 1998, 1999, 2000, Department of Statistics

- Steady growth will continue to sustain and provide opportunities for operators within the Animal Feed, including Poultry Feed, and Broiler Farming Industries.

4. GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES

- There are no significant barriers to entry into the commercial Poultry Farming Industry in Malaysia with the exception of obtaining mandatory approval from the Department of Veterinary Services.
- However there are numerous regulations governing commercial Poultry rearing and related activities in Malaysia, some of which include:
 - Locations of farms are to be 250 metres away from residential areas;
 - No antibiotic residue and banned drugs in meat as specified under the Food Act.
- The Government has imposed the following restrictions on imports of live fowl, poultry or processed poultry products into Malaysia:
 - Import of all Poultry and Poultry products requires an import licence issued by the Department of Veterinary Services;
 - Import of processed canned meat products requires an import licence and must be accompanied by the Veterinary Health Certificate of the exporting country certifying that the products are disease free, fit for consumption and prepared under veterinary supervision.

(Source: Department of Veterinary Services, Ministry of Agriculture)

- Poultry meat is a controlled item with a maximum selling price imposed by the Ministry of Agriculture and the Ministry of Domestic Trade and Consumer Affairs.

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- There are no significant barriers to entry into the Manufacturing of Prepared Animal Feed with the exception of a mandatory manufacturing licence.

Implication

- Poultry meat may be a controlled item, however both Poultry Feedmill and Broiler Farming industries are subjected to operating in a free enterprise environment governed by quality, cost competitiveness and production efficiency.

5. INDUSTRY DEPENDENCIES – SUPPLY SIDE

5.1 Poultry Feed

- The Poultry Feed Industry is dependent upon raw materials for feed ingredients. The main ingredients are:
 - Maize;
 - Soybean meal.
- Of these, maize itself forms approximately 50% and soybean meal forms 25% of total feed ingredients. However, both these components are widely available from a variety of imported sources, some of which include the United States, Argentina, China and Thailand. *(Source: Malaysian Feedmillers' Association)*
- With ample supply of maize or soybean meal overseas, there has been no known shortages in supply. *(Source: Malaysian Feedmillers' Association)*
- In 2000, imports of maize grain into Malaysia experienced an increase of 0.8% amounting to RM969.2 million. *(Source: Monthly External Trade Statistics, December 2000, Department of Statistics)*
- In line with the Malaysian Government's emphasis to reduce imports of maize, there have been successful developments in local research that may, in time, reduce imports of maize in the future:
 - Universiti Putra Malaysia has developed a new hybrid high yield maize grain designed to increase and encourage local cultivation of maize;
 - Malaysian Agriculture Research and Development Institute has developed treated palm kernel cake, a local substitute for maize.
- In addition, there are a variety of local crops, by-products and agro-industrial by-products that may be used as substitutes for Animal Feed including rice bran, rice straw, palm oil sludge and pineapple bran.
- Malaysia does not have the comparative advantage to economically produce maize and soybean to compete with countries like the United States. As such, being able to produce maize and soybean locally is not as important as finding alternative local produce.

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5.2 Broiler Farming

- The Broiler Farming Industry is dependent upon the following:
 - Parent stock to produce commercial day-old chicks;
 - Poultry Feed to sustain growth and to ensure broilers are free from diseases to minimise mortality rates.
- Grandparent stock breeding companies which are used to supply the parent stock for the production of commercial day-old chicks for broilers are locally available from two main sources:
 - Leong Hup;
 - Charoen Pokphand.
- In addition, parent stocks are also available from a variety of imported sources including the United States, Canada, Indonesia, Korea and Thailand.
- In 2000, Malaysia imported approximately 37% of its parent stock and the remaining 63% was sourced locally. *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- As for Poultry Feed, there is ample supply of feed available locally from an established industry comprising 42 commercial Feedmills in operation in Malaysia as at March 2002. *(Source: Malaysian Feedmillers' Association)*
- There has been no record of any shortages in the supply of Animal Feed including Poultry Feed in Malaysia. *(Source: Malaysian Feedmillers' Association)*

6. INDUSTRY DEPENDENCIES – DEMAND SIDE

6.1 Poultry Feedmill

- The Poultry Feedmill Industry is dependent upon:
 - domestic market of Poultry farmers;
 - export markets.
- The main end-users for Poultry Feed in the domestic market are the broiler and layer farmers. In 2000, there were 2,003 broiler farmers and 322 layer farmers in Peninsular Malaysia. This high number of domestic Poultry farmers will continue to generate demand for Poultry Feed. *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- A significant proportion of demand for Animal Feed will also come from the export market. Export of Animal Feed declined at an average annual rate of 3.4% between 1996 to 2000. *(Source: Monthly External Trade Statistics, December 1997, 1998, 1999 and 2000, Department of Statistics)* In 2000, export of Animal Feed amounted to RM361.3 million representing a decrease of 7.5%. *(Source: Monthly External Trade Statistics, December 2000, Department of Statistics)*

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6.2 Broiler Farming

- Demand for the Broiler Farming Industry is dependent on:
 - domestic market for the retail and food services sectors;
 - overseas markets.
- In 2000, the estimated per capita consumption grew by 2.4% amounting to 30.2 kilogram per year. (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture) The high per capita consumption of Poultry Meat indicates the strong demand for broilers from consumers in the retail and the food services sector. This in turn will also stimulate demand for Poultry Feed.
- Export demand for Poultry and Poultry Meat will continue particularly from Singapore, which accounts for one of Malaysia's main export markets. The Singaporean Government's measures to reduce Poultry Farming activities in Singapore will further position Malaysia as one of the main sources of supply of Poultry into the country.
- In addition to Singapore, Malaysia is currently exporting Poultry and Poultry Meat to other parts of Asia, United Kingdom, United States and the Middle East.

Implication

- The diversity in demand of Poultry and Poultry Meat from export markets together with the high local consumption will continue to generate opportunities for operators in the Broiler Farming Industry.

7. COMPETITIVE NATURE OF THE INDUSTRY

7.1 Poultry Feedmill

- The Poultry Feedmill Industry operates under normal competition at a **medium level of competitive intensity** for commercial feedmills.
- This is mainly predicated by the following factors:
 - Barriers to entry are relatively high in terms of capital cost and working capital;
 - As at March 2002, there were 42 commercial Feedmills that produce Poultry Feed for sale (Source: Malaysian Feedmillers' Association);
 - As at March 2002, there were eight very large commercial Feedmills and approximately 20 medium sized commercial Feedmills (Source: Malaysian Feedmillers' Association);
 - A significant number of large commercial Feedmills also operate their own Poultry farms, thus achieving economies of scale.

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Implication

- The large size of the domestic market and growth in demand from the domestic and export markets will continue to sustain operators and ensure a role for manufacturers in this industry.

7.2 Broiler Farming

- The Broiler Farming Industry does not operate under normal competition. As an essential item, the Government controls the maximum price of broilers.
- Competitive intensity of the Broiler Farming Industry is **medium to high**. This is predicated by the following factors:
 - Broiler is a commodity food item with virtually no distinguishable differentiation from the end-consumer's perspective. As such, all producers have virtually equal chance of selling their products to end-consumers thereby increasing the competition for all operators in the industry;
 - Barriers to entry are low as indicated by 2,003 broiler farmers in 2000; (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)
 - Competitive pressure from the large Broiler Farmers is intense due to their strong distribution network.

Implication

- Larger Broiler Farmers that are able to achieve consistency in quality and supply, and gain significant economies of scale will rise above the smaller farmers. This will place larger Broiler Farmers at a different level of competition that is less intensive compared to smaller farmers.

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8. KEY PLAYERS IN THE INDUSTRY

8.1 Poultry Feedmill

- Some of the major commercial operators within the industry include:

Federal Flour Mills Berhad	Dindings Soya and Multifeeds Sdn Bhd
Gold Coin (Malaysia) Berhad	Sin Heng Chan (Malaya) Berhad
Cargill Feed Sdn Bhd	Pin-Wee Feedmills Sdn Bhd
Charoen Pokphand Feedmills (M) Sdn Bhd	Zue Guan Feedmills Sdn Bhd
KFC Integrated Poultry Industry Sdn Bhd	Soon Soon Feedmills Sdn Bhd
Leong Hup Holdings Berhad	Leong Huat Farming Sdn Bhd
Sinmah Resources Berhad	Bintak Trading Sdn Bhd

- As at March 2002, there were 42 commercial Poultry Feedmills in Peninsular Malaysia. In total, they produce approximately 60% of the total Poultry Feed produced in Peninsular Malaysia. (Source: Malaysian Feedmillers' Association and Department of Veterinary Services)

8.2 Broiler Farming

- Some of the major Broiler Farmers in Peninsular Malaysia are:

Leong Hup Holdings Berhad	Ding Brothers Enterprise Sdn Bhd
Charoen Pokphand Jaya Farm (M) Sdn Bhd	Zue Guan Feedmills Sdn Bhd
Sinmah Resources Berhad	Leong Huat Farming Sdn Bhd
KFC Holdings (Malaysia) Berhad	Bintak Sdn Bhd
Dindings Broiler Breeder Farm Sdn Bhd	JB Kim Farm Sdn Bhd
Pin-Wee Farming Sdn Bhd	Heng Kai Hock Farm Sdn Bhd
Di-Hin Farm Sdn Bhd	Lean Huat Chan Farm Sdn Bhd
Fong Cheng Poultry Sdn Bhd	Khoon Hin Sdn Bhd
Hwa Huat Livestock Sdn Bhd	Sin Tai Nam Poultry Farm Sdn Bhd
Chuah Ah Bee Sdn Bhd	Donlark Poultry Farm Sdn Bhd

- In 2000, there were 2,003 Broiler Farmers in Peninsular Malaysia. (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)

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9. ADEQUACY OF REVENUE

- Sales output per establishment for the manufacturing of Prepared Animal Feed Industry increased at an average annual rate of 5.5% between 1996 and 2000. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- In 2000, the sales output per establishment for the manufacturing of Prepared Animal Feed reached RM55 million, representing an increase of 5.8% over the previous year. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)

Implication

- The growth in Sales Output indicates the viability of the industry and its ability to sustain operators.

10. SUPPLY OF PRODUCTS

10.1 Poultry Feedmill

- Between 1996 and 2000, the sales value of the manufacturing of Prepared Animal Feed grew at an average annual rate of 5.5%. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- In 2000, the sales value of the manufacturing of Prepared Animal Feed reached RM2.0 billion, representing an increase of 8.8% over the previous year. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- Between 1996 and 2000, imports of Animal Feed have been growing at an average annual rate of 2.4%. (Source: *Monthly External Trade Statistics, December 1997, 1998, 1999, 2000, Department of Statistics*)
- For the first nine months of 2001, sales value of the manufacturing of Prepared Animal Feed grew to RM1,582.2 million, representing an increase of 4.7% over the same period in 2000. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- Between 1996 and 2000, production of Poultry Feed as a sub-sector of Prepared Animal Feed, increased at an average annual rate of 11.2% in tonnage terms. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- For the first nine months of 2001, production of Poultry Feed amounted to 1.8 million tonnes, representing an increase of 11.6% compared to the same period in 2000. (Source: *Monthly Manufacturing Statistics, September 2001, Department of Statistics*)

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10.2 Broiler Farming

- Between 1996 and 2000, the ex-farm value of Poultry Meat in Peninsular Malaysia increased by an average annual rate of 21.9% (Note: 2000 figures are estimates only). (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)
- In 2000, the estimated ex-farm value of Poultry meat in Peninsular Malaysia reached RM3.6 billion, representing an increase of 3.4%. (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)
- Between 1996 and 2000, production of Poultry Meat in Peninsular Malaysia in tonnes grew at an average annual rate of 2.8% (Note: 2000 figures are estimates only). (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)
- In 2000, estimated production of Poultry Meat in Peninsular Malaysia reached 651,500 tonnes, representing an increase of 3.7% over the previous year. (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)
- Between 1996 and 2000, imports of Processed Poultry Meat in Peninsular Malaysia grew by an average annual rate of 43.5% (Note: 2000 figures are estimates only). However, in terms of value, it is from a low base of RM118 million for 2000. (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)

Implication

- The growth in local production and imports are indications of continuing demand for Broiler and Animal Feed including Poultry Feed.

11. DEMAND FOR PRODUCTS

- Demand for Poultry Feed traditionally services the domestic market. However, export markets for Animal Feed including Poultry Feed also represents an important source of demand:
 - In 2000, export of Animal Feed amounted to RM361 million. However, this represented a decrease of 7.5% compared to the previous year.
 - Between 1996 and 2000, exports of Animal Feed declined by an average annual rate of 3.4%.(Source: Monthly External Trade Statistics, December 1997, 1998, 1999, 2000, Department of Statistics)
- In addition, demand for the Broiler Farming Industry will also come from export markets. Singapore is currently one of Malaysia's main export market for Poultry and Poultry Meat. This is reflected in the following trends:

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- In 2000, Singapore accounted for 99.9% of total exports of fowls from Malaysia which amounted to RM234.1 million; (*Source: Unpublished Data – Department of Statistics*)
- Singapore is one of the major consumers of Poultry Meat in comparison to other Asian countries. In 1998, Singapore was one of the top 10 countries with high consumption of Poultry meat at 31.4kg per capita (*Source: Agri-food and Veterinary Authority, Singapore*).
- Apart from Singapore, Malaysia also exports its Poultry and Poultry Meat, albeit a small amount, to other countries including the United States, United Kingdom, Middle East and other parts of Asia.

Implication

- Growth in exports is an indication of the increasing ability of operators in both the Poultry Feedmill and the Broiler Farming industries to address opportunities in the global market.

12. INDUSTRY OUTLOOK

12.1 Poultry Feedmill

- **The outlook of the Poultry Feedmill Industry is favourable.**
- The demand for Animal Feed, which includes Poultry Feed, has been growing and this is indicated by the following trends:

Production

- Between 1996 and 2000, sales value of the manufacturing of Prepared Animal Feed grew at an average annual rate of 5.5%; (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- For the first nine months of 2001, sales value of the manufacturing of Prepared Animal Feed grew by 4.7% amounting to RM1,582.2 million over the same period in 2000 (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- Between 1996 and 2000, production of Poultry Feed in quantity terms grew at an average annual rate of 11.2%; (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*)
- For the first nine months of 2001, production of Poultry Feed amounted to 1.8 million tonnes, representing an increase of 11.6% compared to the same period in 2000 (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*)

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Exports and Imports

- In 2000, exports of Animal Feed amounted to RM361 million. However, this represented a decrease of 7.5% compared to the previous year. Between 1996 and 2000, exports declined by an average annual rate of 3.4%. *(Source: Monthly External Trade Statistics, December 1997, 1998, 1999, 2000, Department of Statistics)*
- Between 1996 and 2000, imports of Animal Feed grew at an average annual rate of 2.4%. *(Source: Monthly External Trade Statistics, December 1997, 1998, 1999, 2000, Department of Statistics)*
- Growth in the Poultry Feedmill Industry will be dependent upon the domestic livestock industry.
 - Between 1996 and 2000, ex-farm value of Livestock products in Peninsular Malaysia grew at an average rate of 0.2% per annum. *(Note: 2000 figures are estimates only) (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
 - With the Malaysian Government's intention to promote the livestock industry as one of the sectors of growth as specified in the Second Industrial Master Plan, the production of Animal Feed including Poultry Feed will be one of the key supporting industries.

12.2 Broiler Farming

- **The outlook of the Broiler Farming Industry is favourable.**
- This is predicated by the following:

Production

- In 1999, the Livestock Industry in Malaysia was valued at RM4.35 billion with Poultry meat alone contributing a significant 80.6% of the total value of output in this industry. In 2000, the Livestock Industry was estimated at RM4.52 billion, representing an increase of 3.9% over the previous year. *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- Between 1996 and 2000, total ex-farm value of production of Livestock products in Peninsular Malaysia grew at an average rate of 0.2% per annum *(Note: 2000 figures are estimates only); (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- In 2000, Poultry meat ranked the highest in terms of consumption at 651,500 metric tonnes, which is 428.4% higher than pork, the next highest consumed livestock in Peninsular Malaysia *(Note: 2000 figures for the consumption of poultry meat are estimates only); (Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*

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- Between 1996 and 2000, the ex-farm sales value of Poultry Meat production in Peninsular Malaysia grew at an average rate of 21.9% per annum *(Note: 2000 figures are estimates only)* *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- In 1998, despite the economic crisis, ex-farm value of production of Poultry meat in Peninsular Malaysia reached RM2.4 billion, representing an increase of 5.7% compared to 1997; *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- In 1999, ex-farm value of production of Poultry Meat in Peninsular Malaysia continued to grow to RM3.51 billion, representing a significant increase of 46.9% over 1998.
- In 2000, the estimated ex-farm value was RM3.63 billion, representing an increase of 3.4% over 1999. *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- Between 1996 and 2000, the ex-farm value of Poultry Meat in Peninsular Malaysia increased at an average annual rate of 21.9% *(Note: 2000 figures are estimate only)* *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- Between 1996 and 2000, the value of exports of Fowl and Poultry in Peninsular Malaysia increased at an average annual rate of 8.5%, most of which was exported to Singapore *(Note: 2000 figures are estimates only)* *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- From 1995 to 2000, the rate of self-sufficiency increased from 111.4% to 119.2% *(Note: 2000 figures are estimates only)*; *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*
- It is forecasted that the self-sufficiency rate of Poultry Meat will reach 143.2% between 2000 and 2005. *(Source: Eighth Malaysia Plan 2001-2005, Economic Planning Unit)*

Exports and Imports

- In 2000, total exports of fowls of the species *gallus domesticus* from Malaysia reached the value of RM234.4 million; *(Source: Unpublished Data - Department of Statistics)*
- Between 1996 and 2000, exports of live broilers to Singapore in terms of quantity grew at an average annual growth rate of 5.1% *(Note: 2000 figures are estimates only)*. In 2000, exports, in terms of quantity were estimated at 45.1 million broilers, an increase of 4.0% over 1999; *(Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture)*

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- Between 1996 and 2000, the value of imported processed Poultry Meat in Peninsular Malaysia grew at an average annual rate of 43.5% (*Note: 2000 figures are estimates only*). (*Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture*)
- Demand for Poultry Meat will continue as it is considered staple meat. Poultry is currently the most economical in terms of price to weight ratio and is the highest consumed meat in comparison to other livestock meat.

13. GROWTH FORECAST

- The Poultry Feedmill and Broiler Farming Industries are both forecasted to grow at approximately 5% per annum for the next five years.
- The growth forecast applies to both Industries as they are highly correlated. This is due to the fact that both industries cater mainly to the domestic market.
- The industry growth forecast is based on the following trends:
 - The average annual growth rate of Poultry production in tonnage is 8.8% between 1996 and 2000, whereby production increased from 687,000 tonnes in 1995 to 1 million tonnes in 2000 (*Source: Eighth Malaysia Plan 2001-2005, Economic Planning Unit*);
 - The Poultry Industry continued to be the main source of growth for the livestock sub-sector accounting for RM4.3 billion in current value or 67.1% of the total livestock produce in 2000 (*Source: Eighth Malaysia Plan 2001-2005, Economic Planning Unit*);
 - During the Eighth Malaysia Plan period, it is forecasted that the growth of Poultry production in terms of tonnage will reach 4.8% per annum, from 1 million tonnes in 2000 to 1.3 million tonnes in 2005 (*Source: Eighth Malaysia Plan 2001-2005, Economic Planning Unit*);
 - Exports of Broilers will contribute to the growth of the industry. In 1999, Malaysia exports 13% from its total production of 342.85 million birds. (*Source: The Broiler Chicken Industry of 2000 in Peninsular Malaysia, Status of the Industry in 2000 and Prospects for 2001, Poultry Unit, Department of Veterinary Science*) Singapore is Malaysia's main export market for live broilers and chicken meat. It is expected that exports of Poultry and Poultry meat to Singapore will increase particularly in light of the Singaporean Government's measures to reduce Poultry farming activities in the country;
 - Between 1996 and 2000, ex-farm value of Poultry Meat grew at an average rate of 21.9% per annum in Peninsular Malaysia (*Note: 2000 figures are estimates only*) (*Source: Unpublished Data - Department of Veterinary Services, Ministry of Agriculture*);

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- Between 1996 and 2000, production of Poultry Feed in terms of tonnage grew at an average annual rate of 11.2% in Malaysia (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*);
 - For the first nine months of 2001, production of Poultry Feed in terms of tonnage grew to 1.8 million tonnes, an increase of 11.6% over the same period in 2000 (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*);
 - Between 1996 and 2000, sales value of the manufacturing of Prepared Animal Feed grew by an average annual rate of 5.5% in Malaysia (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*);
 - For the first nine months of 2001, the sales value of the manufacturing of Prepared Animal Feed grew to RM1,582.2 million, representing an increase of 4.7% over the same period in 2000 (*Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics*).
- Population in Malaysia grew at a revised average annual rate of 2.4% between 1996 and 2000. In 2001, the population is expected to reach 23.8 million, which is an increase of 2.1% over 2000. Population increase will contribute to an incremental increase in demand for Poultry meat (*Source: Yearbook of Statistics Malaysia 2000, Department of Statistics*).
 - Based on the average yearly growth turnover over a four-year period, the following companies have achieved above the industry forecast growth rate of 5% per annum:

Sinmah Resources	=	11.7% per annum (between January 1997 and January 2001)
Cargill Feed	=	36.4% per annum (between May 1996 and May 2000)
KFC Holdings	=	9.0% per annum (between December 1996 and December 2000)

14. THREATS AND RISK ANALYSIS

- Malaysia's strong dependency on imports of raw materials for Poultry Feed ingredients such as maize and soybean meal means that the industry is subjected to fluctuations in prices in the international market. However, breakthrough in local research and development on a new hybrid of maize grain and substitute materials for maize may, in time, reduce Malaysia's dependency on imports.
- As labour costs increases, Malaysia may lose its comparative advantage to other less developed countries with lower operational costs in the long term.
- A slowdown in demand for Poultry Meat may create a glut in supply. This is evident in 1996 when Poultry producers overestimated the demand and increased production by 20%. Although such setbacks are mainly temporary, it has impacted on the profitability of many operators.

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- Poultry disease is one of the most critical threats to the industry. The disease can either kill most of the farmers' Poultry or the government may impose mandatory culling of Poultry to prevent the disease from spreading. These situations will cause a direct and significant impact on the Poultry farmers' businesses and their profitability.
- In 1996 there was a Nitrofurantoin scare, which impacted on the demand for Poultry meat. Such scare, rightly or wrongly, could reduce significantly the consumption of Poultry meat, thus impacting on the profitability of Poultry farmers.
- There is the additional threat of substitute products. The main meat substitutes to Poultry, include Pork, Beef and Seafood. Other substitutes, among others, include fruits, vegetables, nuts, soy-based food and game meat. Thus, in the event of a scare in Poultry meat or a trend away from Poultry meat, consumers can turn to a wide variety of substitute products.
- A weak Malaysian Ringgit may be disadvantageous due to the strong dependency on imported raw materials for feed ingredients. The net effect could disadvantage local manufacturers due to the higher cost structure.

15. AREAS OF GROWTH AND OPPORTUNITIES

- With growing demand of Poultry and Poultry Meat from Singapore, which ranked fourth in Asia in 1998 and having a poultry consumption of 37.0 kg per capita in 2000, Malaysia is ideally positioned to be its main sources of supply. (Source: Unpublished Data - Agri-food and Veterinary Authority, Singapore)
- In 2000, Malaysia exported of RM234.1 million of fowls (*Gallus domesticus*) to Singapore. (Source: Unpublished Data - Department of Statistics)

Asian Countries	Per Capita Poultry Consumption (kilogram) - 1998
Brunei	54.0
Hong Kong	51.2
Malaysia	32.3
Singapore	31.4
Thailand	15.6
Japan	13.7
Philippines	7.3
Indonesia	4.0
Vietnam	2.8

Source: Agri-food and Veterinary Authority, Singapore

- The changing lifestyle of consumers have created an increasing demand for convenience food including pre-prepared and processed meat products in frozen, retort pouches, ready-to-eat and easy-to-cook meals. This growing trend has and will continue to generate opportunities for downstream processing of Poultry Meat products.

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- The creation of an international hub for 'halal' food is specified as one of the areas of growth in the Second Industrial Master Plan 1996-2005. Malaysian manufacturers of processed livestock industry including Poultry products stand to derive significant benefits particularly from the Government's support.
- Malaysia's high acceptance of Poultry meat as part of the staple diet creates opportunities for local manufacturers to expand current activities and move into downstream processing to cater to the growing demands of the domestic market.
- The high imports of raw materials particularly in maize and soybean meal also presents opportunities for import substitution for local manufacturers, particularly in the utilisation of other agricultural crops and agricultural waste or by-products.
- To remain competitive in the global market particularly in exports, there are opportunities for local manufacturers to formulate their own feed ingredients through research and development.

16. MARKET SIZE AND SHARE**16.1 Animal Feed**

- In 2000, the market size for Prepared Animal Feed was estimated at **2.2 million tonnes** in Malaysia *(Note: Total Production of Prepared Animal Feed is based on a sample size of 37 major establishments with over 30 employees operating in each establishment). (Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics)*
- In 2000, the market size for Prepared Animal Feed was estimated at **RM2.0 billion** in Malaysia *(Note: Total Ex-factory sales value of Prepared Animal Feed is based on a sample size of 37 major establishments with over 30 employees operating in each establishment). (Source: Monthly Manufacturing Statistics, September 2001, Department of Statistics)*
- In 2000, the market share of Pin-Wee Feedmills in Animal Feed in Malaysia was estimated at **8%** based on a production of 180,000 tonnes of Animal Feed.

16.2 Broiler Farming

- In 2000, the market size of the Broiler Industry was estimated at **364 million birds** in Peninsular Malaysia. *(Source: The Broiler Chicken Industry of 2000 in Peninsular Malaysia, Status of the Industry in 2000 and Prospects for 2001, Poultry Unit, Department of Veterinary Science)*
- In 2000, based on an average ex-farm price of RM2.81 per kg and an average size of 2.0 kg per broiler, the **ex-farm market size** of the Broiler Industry was estimated at **RM2.0 billion** in Peninsular Malaysia. *(Source: The Broiler Chicken Industry of 2000 in Peninsular Malaysia, Status of the Industry in 2000 and Prospects for 2001, Poultry Unit, Department of Veterinary Science and calculated by Vital Factor Consulting)*

12. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



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- In 2000, based on an average retail price of RM5.80 per kg and an average size of 2.0 kg per broiler, the **retail market size** of the Broiler Industry was estimated at **RM4.2 billion** in Peninsular Malaysia. *(Source: The Broiler Chicken Industry of 2000 in Peninsular Malaysia, Status of the Industry in 2000 and Prospects for 2001, Poultry Unit, Department of Veterinary Science and calculated by Vital Factor Consulting)*
- In 2000, Pin-Wee Farming's market share of Broilers in Peninsular Malaysia was estimated at 3% based on a production of 11.5 million broilers.

16.3 Implication

- The large size of the market for Animal Feed and Broilers will continue to sustain and provide opportunities for operators in these industries.

17. MARKET RANKING

17.1 Animal Feedmills

- Based on the estimated monthly feed production for 1999, Pin-Wee Feedmills was ranked Ninth among Animal Feed Manufacturers in Peninsular Malaysia in terms of production of Animal Feed.
- Based on the estimated monthly feed production for 1999, Pin-Wee Feedmills was ranked as one of the top feed manufacturers in the Northern Part of Peninsular Malaysia in terms of production of Animal Feed *(Based on information available at the point in time)*

17.2 Broiler Farming

- Based on the estimated monthly production of broilers for 1999, Pin-Wee Farming was ranked Sixth in Peninsular Malaysia in terms of production of Broilers.
- Based on the estimated monthly production of broilers for 1999, Pin-Wee Farming was ranked as one of the top broiler farmers in the Northern Part of Peninsular Malaysia in terms of production. *(Based on information available at the point in time)*

Note: Where information and data are requested directly from the source and which are not normally available in any publications, the source will be acknowledged as "Unpublished Data" followed by the name of the source of information.

12. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



VITAL FACTOR CONSULTING
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Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the reader(s) of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company or companies.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Wooi Tan', is written over a horizontal line. The signature is stylized and cursive.

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

13. VALUERS' CERTIFICATE

(This valuation should be read in conjunction with Section 9 of this Prospectus)



11th April 2002

The Board of Directors
Messrs Pin-Wee Group Berhad
Plot 31, Lorong Perindustrian Bukit Minyak 9
Taman Perindustrian Bukit Minyak
14100 Bukit Mertajam
Seberang Perai Tengah
Pulau Pinang

Dear Sirs

VALUATION OF PROPERTIES BELONG TO PIN-WEE GROUP BERHAD (PWGB)

This letter is prepared for inclusion in the Prospectus to be dated 23th April 2002 in relation to the Public Issue of 8,131,000 new ordinary shares of RM1.00 each at an Issue price of RM1.30 Per New Ordinary Share payable in full on application; and - Offer for Sale of 3,700,000 Ordinary Shares of RM1.00 each at an Offer Price of RM1.30 Per Ordinary Share payable in full on application.

We were instructed by PWGB to value the properties listed below. We confirmed we have inspected all the properties on 8th and 9th July 1999 and we have valued the properties based on the Valuation Basis stated below. The Valuations had been carried out in accordance with the Guidelines on Asset Valuations for Submission to The Securities Commission (1995) issued by The Securities Commission, in compliance with the Valuation Standards issued by The Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

AZAMI & CO

Lot 330, 3rd Floor, Section 14, Wakaf Siku, Jalan Sultan Yahya Petra, 15150 Kota Bharu, Kelantan.
Tel : 609 - 748 1252 Fax : 609 - 747 7282 Email : azamico@pd.jaring.my

13. VALUERS' CERTIFICATE (Cont'd)

In our opinion, we consider the Market Value of the following properties to be as follows :-

Properties held for Investment Purposes

Properties belonging to Messrs Pin-Mee Farming Sdn. Bhd

Date Of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(A)	Lot No.203, Mukim 3 Seberang Perai Selatan Pulau Pinang/ 2.3800 Ha.	#2 Agricultural Land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken coops not specified)	Leasehold 62 years (Expiring on 1 st January 2028)/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM535,000.00 Coops and Installation : RM415,000.00 RM950,000.00
2/08/1999	PGSC99PW(B)	Lot No.321, Mukim of Junjong, District of Kulim, Kedah/ 1.5595 Ha.	Agricultural Land approved and used as a broiler farm (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM285,000.00 Coops and Installation : RM200,000.00 RM485,000.00
2/08/1999	PGSC99PW(C)	Lot No.110, Mukim of Karangan, District of Kulim, Kedah/ 7.6970 Ha.	#1 Agricultural Land used as a broiler farm (Age of chicken coops not specified)	Freehold/ Malay Reserve	(Cost Replacement Method) Land Value : RM1,490,000.00 Coops and Installation : RM700,000.00 Inclusive of Earthwork RM2,190,000.00
2/08/1999	PGSC99PW(D)	Lot No.1172, Mukim of Semiling, District of Kuala Muda, Kedah/ 4.9877 Ha.	#1 Agricultural Land used as a broiler farm (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) a) Without 'Change of Use' approval Land Value : RM430,000.00 Coops and Installation : NIL RM430,000.00 b) With 'Change of Use' approval Land Value : RM430,000.00 Coops and Installation : RM240,000.00 RM670,000.00

13. VALUERS' CERTIFICATE (Cont'd)

Date of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(E)	Lot Nos.1898,1899 and 3572, Mukim of Sungai Tinggi, District of Larut and Matang Perak Darul Ridzuan/ Lot No.1898 - 1.4443 Ha. Lot No.1899 - 2.2410 Ha. Lot No.3572 - 3.6764 Ha.	#1 Three (3) plots of agricultural land (Since the date of our valuation the subject property had been developed into a broiler farm)	Freehold/ Non Malay Reserve	(Comparison Method) Land Value Only : RM665,000.00
2/08/1999	PGSC99PW(L)	PT 190 as subdivided from Lot No.537, Mukim of Junjong, District of Kulim, Kedah/ 1.288 Ha.	#1 Agricultural land used as a broiler farm (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM175,000.00 Coops and Installation : RM300,000.00 RM475,000.00
2/08/1999	PGSC99PW(M)	Lot Nos.892 and 520 Mukim of Junjong, District of Kulim Kedah/ Lot No.892 - 0.52877 Ha. Lot No.520 - 0.1417 Ha.	#1 Agricultural land used as a broiler farm (Age of chicken Coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM125,000.00 Coops and Installation : RM85,000.00 RM210,000.00
2/08/1999	PGSC99PW(N)	Lot No.255, Mukim 2 Seberang Perai Selatan, Pulau Pinang/ 0.7057 Ha.	#2 Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken Coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM250,000.00 Coops and Installation : RM220,000.00 RM470,000.00

13. VALUERS' CERTIFICATE (Cont'd)

Date of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(Q)	Lot No.389, Mukim of Junjong, District of Kulim, Kedah/ 1.1737 Ha.	#1 Agricultural land used as a broiler farm (Age of chicken Coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM215,000.00 Coops and Installation : RM185,000.00 RM400,000.00 =====
2/08/1999	PGSC99PW(R)	Lot Nos.1504 and 1505 Mukim of Karangan, District of Kulim Kedah/ Lot No.1504 - 0.7689 Ha. Lot No.1505 - 0.6653 Ha.	#1 Agricultural land used as a broiler farm (Age of chicken Coops not specified)	Freehold/ Malay Reserve	(Cost Replacement Method) Land Value : RM225,000.00 Coops and Installation : RM410,000.00 RM635,000.00 =====
2/08/1999	PGSC99PW(S)	Lot Nos.50 and 51 Mukim of Kuala Selama District of Bandar Baharu, Kedah/ Lot No.50 - 3.1019 Ha. Lot No.51 - 2.8052 Ha.	An agricultural land (oil palm estate)	Freehold/ Malay Reserve	(Comparison Method) Land Value Only : RM340,000.00
2/08/1999	PGSC99PW(T)	Lot Nos.58, 1099, 1100 and 1106, Mukim of Kuala Selama, District of Bandar Baharu, Kedah/ Lot No.58 - 2.8629 Ha. Lot No.1099 - 2.8670 Ha. Lot No.1100 - 0.0135 Ha. Lot No.1106 - 2.8770 Ha.	#1 Agricultural land used as a broiler farm (Age of chicken Coops not specified)	Freehold/ Malay Reserve	(Cost Replacement Method) Land Value : RM1,040,000.00 Coops and Installation : RM1,080,000.00 RM2,120,000.00 =====

13. VALUERS' CERTIFICATE (Cont'd)

Properties belonging to Messrs Pin-Wee Feedmills Sdn Bhd

Date Of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(F)	Lot Nos.407 and 408 Mukim 20, Seberang Perai Tengah Pulau Pinang/ Lot No.407 - 2.4431 Ha. Lot No.408 - 2.2383 Ha.	#2 Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM1,510,000.00 Coops and Installation : RM820,000.00 RM2,330,000.00
2/08/1999	PGSC99PW(G)	Lot Nos.571,572,573 and 779, Mukim 16 Seberang Perai Tengah Pulau Pinang/ Lot No.571 - 0.2448 Ha. Lot No.572 - 7.9925 Ha. Lot No.573 - 4.9117 Ha. Lot No.779 - 3.1994 Ha.	#2 Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken coops not specified)	All Freehold except for Lot No.779 which is 99 Years leasehold (Expiring on 6 th December 2028) / Non Malay Reserve	(Cost Replacement Method) Land Value : RM3,910,000.00 Coops and Installation : RM1,805,000.00 RM5,715,000.00
2/08/1999	PGSC99PW(H)	Lot No.287, Mukim 2 Seberang Perai Selatan Pulau Pinang/ 3.4221 Ha.	#2 Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM1,105,000.00 Coops and Installation : RM620,000.00 RM1,725,000.00

13. VALUERS' CERTIFICATE (Cont'd)

Date Of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(I)	Lot No.539, Mukim of Junjong, District of Kulim, Kedah/ 10.9747 Ha.	Agricultural Land approved and used as a broiler farm (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM1,855,000.00 Coops and Installation : <u>RM1,510,000.00</u> RM3,365,000.00
2/08/1999	PGSC99PW(J)	Lot No.1058, Mukim of Junjong, District of Kulim, Kedah/ 4.7952 Ha.	Agricultural land approved and used as a broiler farm (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM440,000.00 Coops and Installation : <u>RM500,000.00</u> RM940,000.00
2/08/1999	PGSC99PW(K)	Factory No. Plot No.31 Lorong Perindustrian Bukit Minyak Sembilan(9) 14100 Bukit Mertajam Pulau Pinang erected On P.T. No.67, Bukit Minyak Industrial Park Mukim 13, Seberang Perai Tengah, Pulau Pinang/ 2.37729 Ha.	A factory (building completed in 1997) Built up areas :- Factory - 5,713 sq.m. Office - 481 sq.m.	Leasehold 60 years (expiring on 11 th June 2055) / Non Malay Reserve	(Cost Replacement Method) Land and Building : RM9,760,000.00
2/08/1999	PGSC99PW(O)	Lot No.741, Mukim 16 Seberang Perai Tengah Pulau Pinang/ 2.1371 Ha.	#2 Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken coops not specified)	Freehold/ Non Malay Reserve	(Cost Replacement Method) Land Value : RM840,000.00 Coops and Installation : <u>RM570,000.00</u> RM1,410,000.00

Company No.: 424009-H


13. VALUERS' CERTIFICATE (Cont'd)

Date Of Valuation	Reference No.	Property Location/ Area in Ha.	Description of Property/ Existing Use	Tenure/ Restriction- In-Interest	Market Value as at Date of Valuation
2/08/1999	PGSC99PW(P)	Holding No.600, Mukim #2 Seberang Perai Tengah Pulau Pinang/ 2.0992 Ha.	Agricultural land used as a broiler farm, subject to Land Conservation Act 1960 (Age of chicken Coops not specified)	Freehold/ Non Malay Reserve Coops and Installation	(Cost Replacement Method) Land Value : RM680,000.00 Coops and Installation : RM485,000.00 RM1,165,000.00 =====

Note : As At The Date Of Valuation :-

- a) #1 subject to change of land use condition to 'poultry farming'; for further detail see Section 4(1) of this Prospectus
- b) #2 subject to excision from 'Land Conservation Act 1960' with permit/no objection from Pejabat Tanah to be occupied as broiler farms
- c) there is no chicken coop on Lot No.52, Mukim of Junjong, District of Kulim, Kedah and Lot No.1100, Mukim of Kuala Selama, District of Bandar Baharu, Kedah; thus there is no breach of 'express condition' for these lots.

Yours faithfully,
AZAMI & CO


AZAMI HAJI MOHD NOR
Registered Valuer (V-211)
AMN/TLH/cl

14. **DIRECTORS' REPORT**

(Prepared for inclusion in the Prospectus)



PIN-WEE GROUP BERHAD (420049-H)
Suite 12-A, Level 12
Menara Northam
No 55, Jalan Sultan Ahmad Shah
10050 Penang.

Date : 11 April 2002

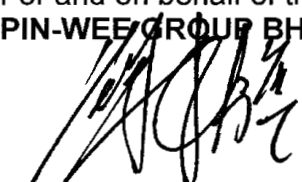
The Shareholders of
Pin-Wee Group Bhd.

Dear Sir/Madam,

On behalf of the Directors of Pin-Wee Group Bhd., I report after due enquiry that during the period from 31 October 2001 (being the date to which the last audited financial statements of the Group have been made) to the date hereof (being a date not earlier than fourteen days before the issue of this Prospectus) that:-

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group which have adversely affected the business and operations or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities have arisen by reason of any guarantees and indemnities given by the Company and its subsidiaries; and
- (e) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheet, there has been no change in the published reserves or any unusual factors affecting the profits of the Company and its subsidiaries since the last audited accounts of the Company and its subsidiaries.

Yours faithfully,
For and on behalf of the Board of Directors
PIN-WEE GROUP BHD.


SIAH GIM ENG
Executive Chairman and Managing Director